

SECURITY AGREEMENT

THIS SECURITY AGREEMENT, dated as of July 1, 1997, is executed by SACRAMENTO KINGS LIMITED PARTNERSHIP, a California limited partnership (the "Team Owner"), in favor of First Trust of California, National Association, as trustee, a national banking association, organized and existing under the laws of the United States of America, as trustee (the "Trustee") under and pursuant to an indenture, dated as of July 1, 1997 (the "Indenture"), between the Sacramento City Financing Authority (the "Authority") and the Trustee.

RECITALS

A. Pursuant to the Indenture, the Authority has issued its Sacramento City Financing Authority 1997 Lease Revenue Bonds (ARCO Arena Acquisition) (the "Bonds") to assist the City of Sacramento (the "City") in obtaining record title to the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena (the "Facility") from the Kings Arco Arena Limited Partnership, a California limited partnership (the "Arena Owner"), an affiliate of the Team Owner, upon the terms and subject to the conditions set forth in the Team Owner Relocation Assurance Agreement.

B. The City's obligation to obtain record title to the Facility from Arena Owner from the proceeds of the Bonds is subject, among other conditions, to receipt by the Trustee of both this Security Agreement and the Team Owner's Relocation Assurance Agreement, both, duly executed by the Team Owner.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Team Owner hereby agrees with the Trustee, for the benefit of the Authority and the City, as follows:

1. Definitions and Interpretation. When used in this Security Agreement, the following terms shall have the following respective meanings:

"Arena Owner" shall have the meaning given to that term in Recital A hereof.

"CPI" means the Consumer Price Index All Urban Consumers (base year 1982-1984=100) for San Francisco-Oakland-San Jose CMSA for the United States, published by the United States Department of Labor, Bureau of Labor Statistics (the "Index"), which is in effect on the August 1, 1997. If the Index is changed so that the base year differs from that in effect on August 1, 1997, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor

Statistics. If the Index is discontinued or revised during the period between August 1, 1997 through July 31, 2037, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

"Collateral" shall have the meaning given to that term in paragraph 2 hereof.

"Indenture" shall have the meaning given to that term in the introductory paragraph hereof.

"Obligations" means and includes all obligations, howsoever arising, owed by Team Owner to the City or the Trustee now existing or hereafter arising pursuant to the terms of the Team Owner's Relocation Assurance Agreement and this Security Agreement.

"NBA" means the National Basketball Association.

"NBA Approval" means a specific document in form and content required by the NBA evidencing the approval of the NBA to this Security Agreement and the Team Owner's Relocation Assurance Agreement.

"Permitted Liens" shall have the meaning given to that term in paragraph 2 hereof.

"Team Owner" means the meaning given to that term in the introductory paragraph hereof.

"Team Owner's Relocation Assurance Agreement" means that certain Team Owner's Relocation Assurance Agreement, dated as of July 1, 1997, between the Team Owner and the City.

"Trustee" shall have the meaning given to that term in the introductory paragraph hereof.

"UCC" means the Uniform Commercial Code as in effect in the State of California from time to time.

Unless otherwise defined herein, all other capitalized terms used herein and defined in the Team Owner's Relocation Assurance Agreement shall have the respective meanings given to those terms in the Team Owner's Relocation Assurance Agreement, and all terms defined in the UCC shall have the respective meanings given to those terms in the UCC.

2. **Grant of Security Interest.** As security for the Obligations, subject to all the terms and conditions of the NBA Approval, the Team Owner hereby pledges and assigns to the Trustee and grants to the Trustee a security interest in all right, title and interest of the Team Owner in and to the property described in Attachment 1 hereto, whether now owned or hereafter acquired (collectively and severally, the "Collateral"), which Attachment 1 is incorporated herein by this reference; such security interest shall be limited as follows: (1)

the amount of the Obligations secured by the Collateral subject to this pledge shall not exceed \$20,000,000 and (2) this security interest shall be subordinate to one or more pledges of or senior liens on the Collateral securing loans to or obligations of the Team Owner (or a general partner of the Team Owner) in the aggregate principal amount outstanding at any one time of up to thirty million dollars (\$30,000,000), as adjusted for CPI ("Permitted Liens"). The Trustee agrees to enter into such agreements evidencing and effecting the subordination of the pledge hereunder, from time to time, as may be requested by the Team Owner or any lender to or obligee of the Team Owner.

3. Representations and Warranties. The Team Owner represents and warrants to the Trustee as follows:

(a) The Team Owner is the legal and beneficial owner of the Collateral. No other Person has any right, title, claim or interest (by way of any lien, purchase option or otherwise) in, against or to the Collateral, other than Permitted Liens.

(b) The Trustee has a second priority perfected security interest in the Collateral subordinate only to Permitted Liens.

(c) The Team Owner keeps all records concerning the Collateral at its chief executive office located at the address of "Buyer" set forth in the Team Owner's Relocation Assurance Agreement.

(d) The information set forth herein and in the Team Owner's Relocation Assurance Agreement is true, correct and accurate.

4. Covenants. Subject to the obligations of the Team Owner under Permitted Liens and to the rights of the holders of or obligees under such Permitted Liens, the Team Owner hereby agrees as follows:

(a) The Team Owner, at its own expense, shall promptly procure, execute and deliver to the Trustee all documents, instruments and agreements and perform all acts which are necessary or desirable, or which the Trustee may request, to establish, maintain, preserve, protect and perfect the Collateral, the lien granted to the Trustee herein and the second priority of such lien (subject only to Permitted Liens) or to enable the Trustee to exercise and enforce its rights and remedies hereunder with respect to the Collateral. Without limiting the generality of the preceding sentence, the Team Owner shall procure, execute and deliver to the Trustee all financing statements requested by the Trustee in order to perfect and maintain the Trustee's security interest in the Collateral and deliver to the Trustee promptly upon receipt all originals of the Collateral consisting of instruments and documents.

(b) The Team Owner shall not use or permit any Collateral to be used in violation of (i) any provision of this Security Agreement or any other document to which the Team Owner is a party or (ii) any applicable law where such use might have a material adverse effect upon the Collateral.

(c) The Team Owner shall pay promptly when due all taxes and other governmental charges, all liens and all other charges now or hereafter imposed upon, relating to or affecting any Collateral.

(d) Without thirty (30) days' prior written notice to the Trustee, the Team Owner shall not (i) change its name or place of business (or, if the Team Owner has more than one place of business, its chief executive office), or the office in which the Team Owner's records relating to the Collateral are kept or (ii) keep the Collateral consisting of chattel paper and documents at any location other than its chief executive office.

(e) The Team Owner shall appear in and defend any action or proceeding which may affect its title to or the Trustee's interest in the Collateral.

(f) If the Trustee gives value to enable the Team Owner to acquire rights in or the use of the Collateral, the Team Owner shall use such value for such purpose.

(g) The Team Owner shall keep separate, accurate and complete records of the Collateral and shall provide the Trustee with such records and such other reports and information relating to the Collateral as the Trustee may reasonably request from time to time.

(h) The Team Owner shall not surrender or lose possession of (other than to the Trustee), sell, encumber, lease, rent, license, option, or otherwise dispose of or transfer the Collateral or right or interest therein except as permitted herein, and, the Team Owner shall keep the Collateral free of all liens except Permitted Liens.

(i) The Team Owner shall type, print or stamp conspicuously on the face of all original copies of all Collateral consisting of chattel paper and documents not in the possession of the Trustee a legend satisfactory to the Trustee indicating that such chattel paper is subject to the security interest granted hereby.

(j) The Team Owner shall comply with all material requirements of law applicable to the Team Owner which relate to the production, possession, operation, maintenance and control of the Collateral (including, without limitation, the Fair Labor Standards Act).

5. **Authorized Action by the Trustee.** The Team Owner hereby irrevocably appoints the Trustee as its attorney-in-fact and agrees that the Trustee, subject to the terms and conditions of the NBA Approval, may perform (but the Trustee shall not be obligated to and shall incur no liability to the Team Owner or any third party for failure so to do) any act which the Team Owner is obligated by this Security Agreement to perform, and to exercise such rights and powers as the Team Owner might exercise with respect to the Collateral, including, without limitation, the right to (a) collect by legal proceedings or otherwise and endorse, receive and receipt for all dividends, interest, payments, proceeds and other sums and property now or hereafter payable on or on account of the Collateral; (b) enter into any extension, reorganization, deposit, merger, consolidation or other agreement pertaining to, or

deposit, surrender, accept, hold or apply other property in exchange for the Collateral; (c) insure, preserve and enforce the Collateral; (d) make any compromise or settlement, and take any action it deems advisable, with respect to the Collateral; (e) pay the City Obligation from the Collateral; and (f) execute UCC financing statements and other documents, instruments and agreements required hereunder; provided, however, that the Trustee may exercise such powers only after the occurrence and during the continuance of a default by the Team Owner under the Team Owner's Relocation Assurance Agreement. The Team Owner agrees to reimburse the Trustee upon demand for all reasonable costs and expenses, including attorneys' fees, that the Trustee may incur while acting as the Team Owner's attorney-in-fact hereunder, all of which costs and expenses are included in the Obligations. The Team Owner agrees that such care as the Trustee gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Collateral when in the Trustee's possession; provided, however, that the Trustee shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other person in connection with the Obligations or with respect to the Collateral.

6. **Default and Remedies.** The Team Owner shall be deemed in default under this Security Agreement upon the occurrence and during the continuance of a default by the Team Owner under the Team Owner's Relocation Assurance Agreement. In addition to all other rights and remedies granted to the Trustee by this Security Agreement, the Team Owner's Relocation Assurance Agreement, the UCC and other applicable laws, the Trustee may, subject to the terms and conditions of the NBA Approval, upon the occurrence and during the continuance of a default by the Team Owner under the Team Owner's Relocation Assurance Agreement, exercise any one or more of the following rights and remedies, subject to the rights of the holders of or obligees under Permitted Liens: (a) collect, receive, appropriate or realize upon the Collateral or otherwise foreclose or enforce the Trustee's security interests in any or all Collateral in any manner permitted by law or in this Security Agreement; (b) sell or otherwise dispose of any or all Collateral at one or more public or private sales, whether or not such Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as the Trustee may determine; (c) require the Team Owner to make the Collateral available to the Trustee at a place to be designated by the Trustee; (d) enter onto any property where any Collateral is located and take possession thereof with or without judicial process; and (e) prior to the disposition of the Collateral, perform any obligations and enforce any rights of the Team Owner under any Contracts (as defined in Attachment 1) or otherwise prepare and preserve Collateral for disposition in any manner and to the extent the Trustee deems appropriate. In furtherance of the Trustee's rights hereunder, subject to the terms and conditions of the NBA Approval and subject to the rights of holders of or obligees under Permitted Liens, the Team Owner hereby grants to the Trustee an irrevocable, non-exclusive license (exercisable without royalty or other payment by the Trustee) to use, license or sublicense any patent, trademark, tradename, copyright or other intellectual property in which the Team Owner now or hereafter in the Collateral, together with the right of access to all media in which any of the foregoing may be recorded or stored. In any case where notice of any sale or disposition of any Collateral is required, the Team Owner hereby agrees that seven (7) days notice of such sale or disposition is reasonable.

7. **NBA Approval.** Each of the parties hereto acknowledges that the provisions of this Security Agreement and the Team Owner's Relocation Assurance Agreement shall be subject to the provisions of the NBA Approval, which the Team Owner and the Trustee have accepted as reasonable and appropriate. Without limiting the generality of the preceding sentence, the Trustee shall not exercise, enforce or attempt to exercise or enforce any of its rights or remedies under the Security Agreement or the Team Owner's Relocation Assurance Agreement except in accordance with and subject to the NBA Approval.

8. **Termination.** Upon termination of the Team Owner Relocation Assurance Agreement, this Security Agreement shall automatically terminate and the Trustee shall promptly execute and file and record such documents in the records of the Sacramento County Recorder, and shall file such other instruments (such as UCC-2 statements), as may be necessary to evidence the termination of this Security Agreement and the Team Owner Relocation Assurance Agreement to the reasonable satisfaction of Team Owner.

9. **Miscellaneous.**

(a) **Notices.** Except as otherwise specified herein, all notices, requests, demands, consents, instructions or other communications to or upon the Team Owner or the Trustee under this Security Agreement shall be given as provided in paragraph 17 of the Team Owner's Relocation Assurance Agreement.

(b) **Amendments; Waivers.** Any term, covenant, agreement or condition of this Security Agreement may be amended in a document signed by the parties hereto. No failure or delay by the Trustee in exercising any right hereunder shall operate as a waiver thereof or of any other right nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other right. Unless otherwise specified in any such waiver or consent, a waiver or consent given hereunder shall be effective only in the specific instance and for the specific purpose for which given.

(c) **Successors and Assigns.** This Security Agreement shall be binding upon and inure to the benefit of the Trustee, the Team Owner and their respective successors and assigns.

(d) **Partial Invalidity.** If at any time any provision of this Security Agreement is or becomes illegal, invalid or unenforceable in any respect under the law or any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Security Agreement nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

(e) **Cumulative Rights, Etc.** The rights, powers and remedies of the Trustee under this Security Agreement shall be in addition to all rights, powers and remedies given to the Trustee by virtue of any applicable law, the Team Owner's Relocation Assurance Agreement, or any other agreement, all of which rights, powers, and remedies shall be cumulative and may be exercised successively or

concurrently without impairing the Trustee's rights hereunder. The Team Owner waives any right to require the Trustee to proceed against any person or to exhaust the Collateral or to pursue any remedy in the Trustee's power.

(f) Payments Free of Taxes, Etc. All payments made by the Team Owner under this Security Agreement shall be made by the Team Owner free and clear of and without deduction for any and all present and future taxes, levies, charges, deductions and withholdings. In addition, the Team Owner shall pay upon demand any stamp or other taxes, levies or charges of any jurisdiction with respect to the execution, delivery, registration, performance and enforcement of this Security Agreement. Upon request by the Trustee, the Team Owner shall furnish evidence satisfactory to the Trustee that all requisite authorizations and approvals by, and notices to and filings with, governmental authorities and regulatory bodies have been obtained and made and that all requisite taxes, levies and charges have been paid.

(g) Team Owner's Continuing Liability. Notwithstanding any provision of this Security Agreement or the Team Owner's Relocation Assurance Agreement or any exercise by the Trustee of any of its rights hereunder or thereunder (including, without limitation, any right to collect or enforce against the Collateral), (i) the Team Owner shall remain liable to perform its obligations and duties in connection with the Collateral (including, without limitation, the Contracts and all other agreements relating to the Collateral) and (ii) the Trustee shall not assume any liability to perform such obligations and duties or to enforce any of the Team Owner's rights in connection with the Collateral (including, without limitation, the Contracts and all other agreements relating to the Collateral), without being first indemnified to its satisfaction from any loss, cost, liability or expense related thereto, including, without limitation, the reasonable fees and expenses of its attorneys and additional fees and expenses of the Trustee.

(h) Governing Law. This Security Agreement shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules (except to the extent otherwise provided in the UCC).

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be executed as of the day and year first above written.

SACRAMENTO KINGS LIMITED PARTNERSHIP, a
California limited partnership

By: ROYAL KINGS LIMITED PARTNERSHIP, a
California limited partnership, general partner

By: CAPITOL SPORTS TEAM, INC., a
California corporation, general partner

By: 

James A. Thomas
Chief Executive Officer

FIRST TRUST OF CALIFORNIA, NATIONAL
ASSOCIATION, as Trustee

By: 

Assistant Vice President

ATTACHMENT 1
TO SECURITY AGREEMENT

All right, title and interest of the Team Owner, whether now owned or hereafter acquired, in and to the following:

(a) Team Owner's National Basketball Association franchise (the "NBA Franchise") and all rights pertaining thereto, all right, title and interest that the Team Owner may now or hereafter have in or under any contract or agreement relating to the use of the existing sports and entertainment arena and related parking facilities commonly known as ARCO Arena, located in Sacramento, California and, to the extent permitted at any time under the Constitution and Bylaws of the National Basketball Association (the "NBA"), any and all agreements pursuant to which the Team Owner, directly or indirectly (e.g. by reason of the Team Owner's NBA Franchise) is entitled to receive any payments whatsoever in respect of any broadcast or other report of the Team Owner's team's games or those of any other member of the NBA or in respect of advertising revenues relating to any such broadcast or other report (collectively, "Media Agreements") in or under which the Team Owner may now have or hereafter have any right, title or interest to any agreement relating to the terms of payment of performance thereof (collectively "Contracts"); and

(b) All other general intangibles relating to the NBA Franchise, the Media Agreements and the Contracts not otherwise described above (including, without limitation, (i) customer and supplier lists and contracts, books and records, insurance policies, tax refunds, contracts for the purchase of real or personal property; (ii) all patents, copyrights, trademarks, tradenames and service marks, (iii) all licenses to use, applications for, and other rights to, such patents, copyrights, trademarks, tradenames and service marks, and (iv) all goodwill of the Team Owner); and

(c) All proceeds of the foregoing (including, without limitation, whatever is receivable or received when the Collateral or proceeds is sold, collected, exchanged, returned, substituted or otherwise disposed of, whether such disposition is voluntary or involuntary, including rights to payment and return premiums and insurance proceeds under insurance with respect to any Collateral, and all rights to payment with respect to any cause of action affecting or relating to the Collateral).